

November 8, 2007

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**PUBLIC SERVICE
COMMISSION**

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Beth O'Donnell
Executive Director
Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

RE: In the Matter of: An Adjustment of Rates of the South Shore Water Works Company (Case No. 2007-00199) - Comments to Commission Staff Report of November 1, 2007.

Dear Ms. O'Donnell:

This letter contains the comments of South Shore Water Works ("South Shore") on the Commission Staff Report of November 1, 2007 ("Report"). South Shore agrees with the majority of the recommendations made by the Commission Staff, but there are areas set forth in Attachment A to the Report that require further explanation and clarification before the Commission rules on this matter.

First, Attachment A to the Report adjusts South Shore's employee salary expense by reducing the salary expense associated with South Shore's President, George J. Hannah, from \$75,140 to \$57,742. The stated rationale for this adjustment was "conformity with past Commission rate case precedents involving South Shore." While it is true that the Commission has routinely reduced the amount of salary expense associated with Mr. Hannah's salary for ratemaking purposes, such an adjustment is not appropriate in this case because Mr. Hannah's duties and responsibilities have substantially increased in comparison to those he performed for South Shore during previous rate cases. In support of this position, South Shore has conducted a study of Mr. Hannah's hourly contributions to South Shore during the test period, in comparison to his hourly contributions considered by the Commission in previous rate cases. The study establishes that Mr. Hannah's contributions have increased, and that his compensation should increase as well. A copy of the study performed by South Shore, along with South Shore's calculation of its proposed wage and salary adjustment, is attached to this letter as Attachment 1.

Second, Attachment A to the Report recommends allowance of depreciation expense associated with plant additions that have occurred subsequent to the end of the test period, but it does not appear that the full scope of such expense was included in the Report. While Attachment A appears to include \$838 as such expense, South Shore's actual depreciation

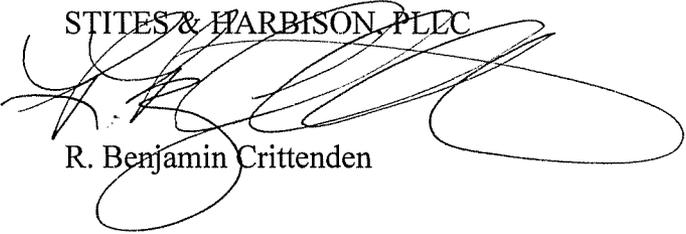
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expense associated with plant additions subsequent to the end of the test period is \$3,728.19. A copy of the schedule setting forth such expense is attached to this letter as Attachment 2.

The consideration of these issues results in an increase of South Shore's revenue requirement, from the \$83,307 recommended by the Commission Staff Report to \$127,112. This increase is reflected in Attachment 3, which illustrates the impact of South Shore's proposed salary expense and depreciation expense increases. South Shore respectfully requests that the Commission consider its position on these two adjustments.

Sincerely,

STITES & HARBISON, PLLC



R. Benjamin Crittenden

Attachments

cc: David E. Spenard
George J. Hannah

Salary-Wages: A compressive study of the hours actually worked by Joe Hannah and physically on the job was conducted from September 2, 2007 to September 15, 2007 to determine his just and reasonable employee compensation that is known and measurable (see Schedule of Normal Work Hours for Joe Hannah). This would be the same hours worked that would correspond to the current PSC Rate Case 2007-199 test year. Then, the 1997 water plant work schedule was reproduced to determine the routine overtime hours worked by Joe during PSC Rate Case 97-321 test year in addition to his normal 40-hour week (see Water Treatment Plant Schedule of Normal Work Hours).

The conclusive finding is the fact that Joe worked 49 hours per week during the 1997 test year.

In 97-321, Staff disallowed part of the compensation recommending \$42,292 (this equates a Staff recommended rate of \$15.20 per hour plus 9 hours at overtime rate) stating, "it has not been demonstrated that responsibilities and duties have substantially changed from previous rate cases."

In PSC 2002-108, Staff again disallowed part of the compensation recommending \$49,038 (\$17.89 per hour plus 9 hours at overtime rate) relying upon the same statement "it has not been demonstrated that the duties and responsibilities had substantially changed since its last rate cases" and refers to 97-321.

In PSC 2003-044, Staff again disallowed part of the compensation again stating, "South Shore did not demonstrate how the duties and responsibilities had substantially changed since its last rate cases" and again refers to 97-321. Staff allowed compensation of \$51,303 (\$18.43 per hour plus 9 hours at overtime rate).

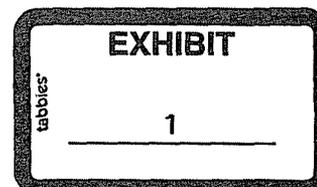
Continuing Staff recommendations from 2003-044 to the current test year 2007-199 and using expected Staff recommendations of 1.03 COLA based on previous rate cases for 2004, 2005, 2006, and 2007 would be Staff compensation of \$57,741.98 (equates to \$20.74 per hour plus 9 hours at overtime rate).

The conclusive finding from the 2007 compressive study of actual hours worked is the fact that "the duties and responsibilities for Joe have substantially changed from the previous rate cases." The actual 1997 hours per week was 49 hours. The actual 2007 hours per week are 69, an increase of 20 hours per week.

To further collaborate the findings are the facts that plant operator Terry Pennington quit after PSC 97-321 in 1999 for a position elsewhere, plant operator Ron Hall retired during the PSC 2002-108 test year, and plant operator Don Hall died after PSC 2003-004. Further, there were 4 plant operators in 1997 and there are only 2 plant operators in 2007. There were 8 full time employees in 1997 (see 97-321) and there are only 6 full time employees in 2007 (see 2007-199).

To provide just and reasonable compensation to all employees, and that the duties and responsibilities for Joe Hannah has in fact, "substantially changed since the previous rate cases." Effective September 16, 2007 all employees will be paid by the hour. Any employee that has been on salary as of this date will receive back pay including overtime up to and including the last employee wage increase April 28, 2007. In addition as with the other employees all Federal and State laws covering overtime and overtime when working vacations and holidays will be honored as required by law.

Benefit to Ratepayers \$79,346 (see schedule of Wage and Salary adjustments).



Water Treatment Plant Schedule of Normal Work Hours

Plant operates 24 hours day. Day Turn 8:00 AM-4:30 PM. Evening Turn 4:30 PM-12:30 AM. Overtime is in bold print. Difference in 8 hour shifts is that Joe's is the minimum OT hours worked as he drives back and forth to and from the water plant as is needed.

Based upon PSC Rate Case 97-321 Test Year

	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
7-8AM		Ron Hall 1	Terry Pennington				
Day Turn	T Pennington 8	Ron Hall 7	Terry Pennington 7				
Evening Turn	Joe 3 hrs	T Pennington 8	T Pennington 8	T Pennington 8	T Pennington 8	Joe 2 hrs	Joe 2 hrs
Joe Hannah							
Reg Hours		40 Hours					
Overtime		9 Hours					
Total Week		49 Hours					

PSC Rate Case 2007-199 Test Year

	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
7-AM		Joe 1 hr					
Day Turn	Joe 4 hrs	Greg Hall 8	Joe 4 hrs				
Evening Turn	Joe 3 hrs	Joe 2 hrs					
Joe Hannah							
Reg Hours	40 Hours	Mon-Fri					
Overtime	29 Hours	Sun-Sat					
Total Week	69 Hours						

4 Operators 1997 9 overtime hours worked by Joe in 1997
 2 Operators 2007 29 overtime hours worked by Joe in 2007
 1997 Full Time Employees 8 2007 Full Time Employees 6

Schedule of normal work hours of Joe Hannah

Collected from actual hours on the job for South Shore Water Works Co. beginning 9/2/07
There were no plant or major system problems during the test period.

Water plant and distribution system breakdowns will cause the amount of hours on the job to be more than what is listed below. Some examples of these are electric outages, pump failures, water well failures, electric control failures, repairs after hours by outside contractors, water main breaks after hours, repairs after hours, distribution system flushing, customer or 911 dispatcher calling during the night and checking for water line breaks.

9/2/07 Sun	8-11AM	7 hrs	Check proper plant operation. Pumps, wells, plant water pressure, clearwell, settlement pits, water color, chlorinator, Knmo4 pump, caustic pump, flouride pump, check plant phone answer machine, record plant meter readings, chemical usage, add KMNO4 and 70 gallon of water to 200 gallon holding tank. Test finished water pH, chlorine, flouride. Adjust chlorine feed rate. Record daily data to Monthly Operation Report. Change to day pumps. Drove to and collected water samples east of plant, then south of plant, then west of plant. Returned to plant, test samples for chlorine and record on report. Check plant operation.
	1-2PM		Check operation. Changed distribution pumps to allow clearwell to fill and let wells kick off. Changed pump
	4:30-5:30PM		Check operation and backwash filter 1
	7-8PM		Check operation change pumps and let wells kick off
	10-11PM		Check operation and change to night pump
9/3/07 Mon	7-11AM	15 hrs	Routine Labor Day Holiday
	2-4PM		Routine
	6-7PM		Routine
	10-11PM		Routine
9/4/07 Tues	7-8AM	11 hrs	Check water pressure change to day pump
	8AM-4:30PM		Routine works office, distribution, and plant Monday - Friday
	6-7PM		Routine
	10-11PM		Routine
9/5/07 Wed	7-8AM	11 hrs	Routine
	8AM-4:30PM		Routine
	6-7PM		Routine
	10-11PM		Routine
9/6/07 Thur	7-8AM	11 hrs	Routine
	8AM-4:30PM		Routine
	6-7PM		Routine
	10-11PM		Routine
9/7/07 Fri	7-8AM	11 hrs	Routine
	8AM-4:30PM		Routine
	6-7PM		Routine
	10-11PM		Routine
9/8/07 Sat	7-11AM	7 hrs	Routine
	1:30-2:30PM		Routine
	5-6PM		Routine
	10-11PM		Routine
			Week ending 9/8/07 Payroll Hours 73
9/9/07 Sun	8-11AM	7 hrs	Routine
	1-2PM		Routine
	5-6PM		Routine
	8-9PM		Routine
	10:45-11:45PM		Routine
9/10/07 Mon	7-8AM		Routine

11 hrs	8AM-4:30PI	Routine	
	6-7PM	Routine	
	10-11PM	Routine	
9/11/07 Tues	7-8AM	Routine	
11 hrs	8AM-4:30PI	Routine	
	6-7PM	Routine	
	10-11PM	Routine	
9/12/07 Wed	7-8AM	Routine	
11 hrs	8AM-4:30PI	Routine	
	6-7PM	Routine	
	10-11PM	Routine	
9/13/07 Thur	7-8AM	Routine	
11 hrs	8AM-4:30PI	Routine	
	6-7PM	Routine	
	10-11PM	Routine	
9/14/07 Fri	7-8AM	Routine	
11 hrs	8AM-4:30PI	Routine	
	6-7PM	Routine	pressure down 2 psi, message on machine gave area of leak but no name, drove to area could not locate
	10-11PM	Routine	pressure down 2psi, indicating a water main break, did not change to night pump
9/15/07 Sat	7-11AM	Routine	drove to area and located main break called out line crew for repairs 8:10 AM. Production up 100,00 gallons (break)
7 hrs			9:30 AM drove to job site discussed repairs, then to storage room for repair clamp. Repaired at 10:30 AM
	1-2PM	Routine	
	5-6PM	Routine	
	10-11PM	Routine	Week ending 9/15/07 Payroll Hours 69
9/16/07 Sun	8-11AM	"	Concluded study, now paid by the hour
7Hrs	1-2PM	"	
	5-6PM	"	
	8-9Pm	"	
	11PM-12AM"		
9/17/07 Mon	7AM-4:30PI"		
11 hrs	6-7PM	"	
	10-11PM	"	
9/18/07 Tues	7AM-4:30PI"		
12 hrs	6-7PM	"	discovered leak by plant
	9-10PM	"	production up, could not change to night pump
	12AM-1AM "		changed to night pump
9/19/07 Wed	7AM-4:30PI"		
11 hrs	6-7PM	"	
	11PM-12AM"		
9/20/07 Thur	7AM-4:30PI"		
11 hrs	6-7 PM	"	
	10-11PM	"	
9/21/07 Fri	7AM-4:30PI"		Week ending 9/21/07 Paid 70 Hours for week
	6-7PM	"	Payroll is paid from Saturday to Friday
11 hrs	10-11PM	"	
9/22/07 Sat	7-11AM	"	
7 hrs	1-2PM	"	
	4-5PM	"	
	10-11PM	"	

9/23/07 Sun 8-11AM "
 7 hrs 1-2PM "
 5-6PM "
 8-9PM "
 11PM-12AM"
 9/24/07 Mon 7AM-4:30PM"
 11 hrs 6:30-7:30PM"
 12-1AM "
 9/25/07 Tues 7AM-4:30PM"
 11 hrs 7-8PM "
 11PM-12AM"
 9/26/07 Wed 7AM-4:30PM"
 11 hrs 6-7PM "
 10-11PM "
 9/27/07 Thur 7AM-4:30PM"
 11 hrs 6-7PM "
 10-11PM "
 9/28/07 Fri 7AM-4:30PM"
 11 hrs 6-7PM "
 10-11PM "
 9/29/07 Sat 7-11AM "
 7 hrs 1-2PM "
 4-5PM "
 10-11PM "
 9/30/07 Sun 8-11AM "
 7 hrs 1-2PM "
 4-5PM "
 7-8PM "
 10-11PM "
 10/1/07 Mon 7AM-4:30PM"
 11 hrs 6-7PM "
 10-11PM "
 10/2/07 Tues 7AM-4:30PM"
 11 hrs 7-8PM "
 12-1AM "
 10/3/07 Wed 7AM-4:30PM"
 11 hrs 6-7PM "
 10-11PM "
 10/4/07 Thur 7AM-4:30PM"
 11 hrs 7-8PM "
 11AM-12PM"
 10/5/07 Fri 7AM-4:30PM"
 11 hrs 6-7PM "
 10-11PM "
 10/6/07 Sat 7-11AM "
 7 hrs 2-3PM "
 6-7PM "
 10-11PM "
 10/7/07 Sun 8-11AM "
 7 hrs 1-2PM "
 5-6PM "
 8-9PM "
 11PM-12AM"

production up

production up

pressure still down 1-2 psi

Rain
pressure normal

Week ending 9/28/07 Paid 69 Hours for week

Paid 69 Hrs. for week. Paid back wages to 4/28/07

Message at plant cust. leak turned off at cust meter

10/8/07 Mon 7AM-4:30PI"
11 hrs 6-7PM "

11-12AM "

West pressure high, reset time clock

10/9/07 Tues 7AM-4:30PI"
11 hrs 6-7PM "

10-11PM "

West clock needs reset

10/10/07 Wed 7AM-4:30PI"
11 hrs 7-8PM "

10-11PM "

reset clock again

10/11/07 Thur 7AM-4:30PI"
11 hrs 6-7PM "

10-11PM "

production down

10/12/07 Fri 7AM-4:30PI"
11 hrs 6-7PM "

10-11PM "

Week ending 10/12/07 Paid 69 hours for week

10/13/07 Sat 7-11AM "

7.5 hrs 2-3:30PM "

6-7PM "

10-11PM "

message 191 4th cust leak, drove there already off checked out, customer leak

10/14/07 Sun 8-11AM "

7 hrs 1-2PM "

4-5PM "

7-8PM "

10-11PM "

changed chlorine cylinder

10/15/07 Mon 7AM-4:30PI"
11 hrs 6-7PM "

10-11PM "

10/16/07 Tues 7AM-4:30PI"
11 hrs 6-7PM "

10-11PM "

10/17/07 Wed 7AM-4:30PI"
11 hrs 6-7PM "

11PM-12AM"

10/18/07 Thur 7AM-4PM "

10.5 hrs 6-7PM "

10-11PM "

Week ending 10/19/07 Paid 69 hrs for week

10/19/07 Fri 7AM-4:30PI"
11 hrs 7-8PM "

11PM-12AM"

10/20/07 Sat 7-11AM "

7 hrs 2-3PM "

6-7PM "

10-11PM "

10/21/07 Sun 8-11AM "

7 hrs 1-2PM "

4-5PM "

7-8PM "

10-11PM "

10/22/07 Mon 7AM-4:30PI"
11 hrs 6-7PM "

10-11PM "

10/23/07 Tues 7AM-4:30PI"
11 hrs 6-7PM "

10-11PM "
 10/24/07 Wed 7AM-4:30PI"
 11 hrs 6-7PM "
 10-11PM "
 10/25/07 Thur 7AM-4:30PI"
 11 hrs 6-7PM "
 10-11PM "
 10/26/07 Fri 7AM-4:30PI"
 11 hrs 7-8PM "
 11AM-12AM"
 10/27/07 Sat 7-11AM "
 9 hrs 1-2PM "
 5-6PM "
 9-10PM "
 12-2AM "
 10/28/07 Sun 8-11AM "
 8 hrs 1-2PM "
 3-5PM "
 7-8PM "
 10-11PM "
 10/29/07 Mon 7AM-4:30PI"
 11 hrs 7-8PM "
 11PM-12AM"
 10/30/07 Tues 7AM-4:30PI"
 11 hrs 7-8PM "
 11PM-12AM"
 10/31/07 Wed 7AM-4:30PI"
 11 hrs 6-7PM "
 10-11PM "
 11/1/07 Thur 7AM-4:30PI"
 11 hrs 6-7PM "
 10-11PM "
 11/2/07 Fri 7AM-4:30PI"

Reset west time clock
Week ending 10/26/07 Paid 69 hrs for week

clean left settlement pits crew 7 hrs

filters extra backwash

Reset west clock

Week ending 11/02/07 Paid 72 hrs for week

Wage and Salary Adjustments

Joe Hannah taken off salary and paid by the hour

	Compensation		
PSC 2003-044	\$51,303.00	\$18.43 x40x52	\$38,334.40
		\$27.65 x9x52	\$12,937.86
			\$51,272.26
1.03 COLA for 2004	\$52,842.09	\$18.98 per hr	
1.03 COLA for 2005	\$54,427.35	\$19.55 per hr	
1.03 COLA for 2006	\$56,060.17	\$20.14 per hr	
1.03 COLA for 2007	\$57,741.98	\$20.74 x40x52	\$43,139.20
		\$31.11 x29x52	\$46,913.88

	hrs	wk	rate	Week	Year
Reg	40	20.74	\$829.60	\$829.60	\$43,139.20
OT	29	31.11	\$902.19	\$902.19	\$46,913.88
normal week	69		\$1,731.79	\$1,731.79	\$90,053.08
works vac	80	31.11			\$2,488.80
&6 holidays	48	31.11			\$1,493.28
1 adjustment					\$94,035.16 Wages
2 adjustment					(\$75,140.00) Salary
					\$18,895.16 increase
3 adjustment		7.65%			\$1,445.80 FICA
4 adjustment		1.75%			\$330.67 Pension
		5.37%			\$0.00 W. Comp

Benefit to ratepayers (see below)	\$74,296.52
Company election not to pay W. Comp. on Joe Hannah	
Benefit to ratepayers	\$5,049.69
Total Benefit to Rate Payers	\$79,346.21

Required to reduce Joe back to 49 hours week 1997 Test Year

7 evening shifts per week and dayshift Saturday & Sunday

2 more operators at 16.70 hr each	\$69,472.00
OT for 6 holidays	\$1,202.40
OT for vacations	\$4,008.00
Total wages 2 additional operators	\$74,682.40
FICA 7.65%	\$5,713.20
Pension 1.75%	\$1,306.94
W. Comp 5.37%	\$4,010.44
Ins 59,947.68 / 5 x 2	\$23,979.07
Additional Expense	\$109,692.05
Less Joe 20 hrs week OT	(\$32,354.40)
FICA	(\$2,475.11)
Pension	(\$566.02)
Additional cost to ratepayers	\$74,296.52

11/2/07

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Category Spending
All Accounts

1/1/07 Through 12/31/07

Numb	Date	Payee	Account	Amount
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Expense Categories

300 New Assets

307 Wells

38638	4/20/07	Pinson Brothers Drilling	131 F & P Checking	(8,487.00)
38800	7/2/07	Pinson Brothers Drilling	131 F & P Checking	(3,683.80)
38948	9/1/07	Pinson Brothers Drilling	131 F & P Checking	(4,030.91)
				(16,201.71)

5 YR = 3,240.34

331 Mains

39012	10/1/07	C.I. Thornburg	131 F & P Checking	(1,019.25)
				(1,019.25)

40 YR = 25.48

333 Services & Hyds.

38382	1/12/07	C.I. Thornburg	131 F & P Checking	(1,023.36)
38470	2/15/07	C.I. Thornburg	131 F & P Checking	(400.99)
38564	3/20/07	Water Works Supplies, Inc.	131 F & P Checking	(697.52)
38636	4/20/07	C.I. Thornburg	131 F & P Checking	(810.63)
38684	5/9/07	C.I. Thornburg	131 F & P Checking	(775.49)
38758	6/15/07	C.I. Thornburg	131 F & P Checking	(1,466.33)
38802	7/3/07	Consolidated Pipe & Supply Co	131 F & P Checking	(1,154.85)
38829	7/13/07	Consolidated Pipe & Supply Co	131 F & P Checking	(638.41)
38870	8/1/07	Consolidated Pipe & Supply Co	131 F & P Checking	(855.74)
38978	9/15/07	C.I. Thornburg	131 F & P Checking	(1,031.93)
				(8,855.25)

40 YR = 221.34

334 Meters

38586	4/1/07	HD Waterworks	131 F & P Checking	(1,696.32)
38963	9/15/07	HD Waterworks	131 F & P Checking	(1,209.75)
				(2,906.07)

20 YR = 145.30

340 Office Equipment

38432	1/26/07	HSBC	131 F & P Checking	(669.96)
				(669.96)

7 YR = 95.69

Total 300 New Assets

(29,652.24)

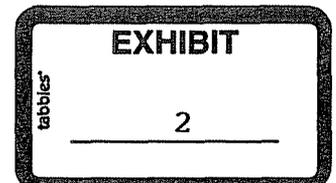
Total Expense Categories

(29,652.24)

Grand Total

(29,652.24)

3,728.19



	Staff	Adjust	Adjusted Staff
Operating Income			
Total Water Sales	\$525,243.00		526532.59
Penalty	9902		9901.82
Non-Recurring	6580		6580.03
Total Op. Income A	\$541,725.00		\$541,725.00
Operating Expenses			
Wages	138426		138426
Officer Wages B	57742	36293	94035
Health Insurance	59948		59948
Pension C	2883	635	3518
Power Plant	45510		45510
Chemicals	13775		13775
M & S Expenses D	41841		41841
Purchased Water	605		605
Accounting	2400		2400
Rental Expenses	16904		16904
Transportation Expense	10702		10702
Insurance Expenses	12828		12828
PSC Assessment	875		875
Depreciation E	58169	3728	61897
Amortization Expenses F	27291		27291
Property Taxes	15035		15035
Payroll FICA taxes G	15007	2776	17783
Unemployment Taxes	806		806
Workers Comp.	5253		5253
Total Expenses	\$526,000.00		\$569,432.00
Operating Income	\$15,725.00		(\$27,707.00)
Other Income & Deductions			
Jobbing Income	5176		5176
Interest Income	1236		1236
Other Income	383		383
Interest Expense	8747		8747
Total Other Inc. & Deductions	(\$1,951.00)		(\$1,951.00)
Inc (Loss) Before Inc. Taxes	\$13,775.00		(\$29,658.00)
Accepted adjustments	A, D, F		
Adjustment B	See attachments		
Adjustment C	\$36,293.00 x 1.75%		
Adjustment G	\$36,293.00 x 7.65%		
Adjustment E	See attachments		

EXHIBIT

3

tabbles

Revenue Requirement

Operating Expenses	\$569,432.00
Divided by: Operating Ratio	88%
Subtotal	\$647,082.00
Less: Operating Expenses	\$569,432.00
Net Operating Income After Income Taxes	\$77,650.00
Multiplied by: Gross-up Factor	1.6118633
Net Operating Income Before Income Taxes	\$125,161.00
Add: Operating Expenses	\$569,432.00
Other Income & Deductions	\$1,951.00
Revenue Requirement	\$696,544.00
Less: Operating Revenue	\$569,432.00
Revenue Increase	\$127,112.00